Annual Report 1974

Texasgulf Inc.

Today

and Tomorrow

The cover theme of the 1974 annual report is "Texasgulf Today and Texasgulf Tomorrow."

Texasgulf Today has grown entirely from the original investments of a small group of stockholders who believed that they could make a profit by putting their money and efforts into the development of a vital natural resource—sulphur—using a revolutionary new method originated by Dr. Herman Frasch, a German chemist who emigrated to America. The United States was then entirely dependent upon foreign sources for its supplies of sulphur, the workhorse of the chemical industry. More than ten years passed before the first investments resulted in a commercial operation. Over the years increasingly large amounts have been reinvested in the business for exploration to find more natural resources and for facilities to produce them. Texasgulf Today is the result of these investments in exploration and development, and governments, shareowners, employees, and the public have profited.

Whether the promise for Texasgulf Tomorrow can be realized will depend largely on a better understanding of the vital role of profits and investment. Throughout this report reference is made to the critical role of government policies, particularly tax policies, in determining the economic feasibility of future investments. Texasgulf's shareowners are urged to express their views to their political representatives to help them shape these policies wisely—to encourage decisions which will be in the best interests of all—governments, shareowners, employees, customers, the public and the local communities.

Texasgulf today

Chemicals

Frasch Sulphur—6 mines in Texas, Louisiana and Mexico.

Recovered Sulphur—3 plants in Alberta.

Terminals in the United States, Ireland and the Netherlands.

Phosphate Fertilizers—North Carolina.

Potash—2 plants in Utah and Saskatchewan.

Gypsum—North Carolina.

Metals

Metals—Zinc, Copper, Silver, Lead, Cadmium, Gold and Tin in Ontario.

Oil and Gas

Offshore Gulf of Mexico, Louisiana, Texas and Alberta.

Minerals Exploration

Worldwide, searching for new opportunities.

International

Iron Ore—Western Australia.

Farm Products

Trees—Ontario, Pennsylvania and North Carolina.

Cattle—North Carolina and Buffalo in Pennsylvania and Ontario.

Crops—North Carolina.

. . . and tomorrow

Chemicals

Frasch Sulphur—New mine in West Texas

Soda Ash—Wyoming.

Phosphate Fertilizers—Ontario, Western U.S. and expansions in North Carolina.

Potash—increased production in Utah and Saskatchewan.

Ammonia—Joint Venture in New Mexico.

Dicalcium phosphate—Nebraska and North Carolina.

Hydrofluosilicic acid—North Carolina

Cement and sulphuric acid from gypsum—Ontario and North Carolina

Caustic soda and Chlorine—Texas

Metals

Zinc and Lead—Baffin Island and New Brunswick.

Copper metal and selenium from smelter and refinery in Ontario.

Oil and Gas

New offshore production—the Gulf of Mexico, Alaska, the Malagasy Republic, Nicaragua, Senegal, Thailand.

New onshore production—Kansas, Louisiana, Mississippi, Oklahoma, Rocky Mountain region, Texas, Alberta, British Columbia, Saskatchewan, the Malagasy Republic, Pakistan.

Heavy oil development—North Battleford area, Saskatchewan.

New energy products

Coal—the United States.
Uranium—Wyoming.

Minerals Exploration

Worldwide, searching for new opportunities.

International

Iron ore—Marandoo, Giles and Rhodes Ridge in Western Australia. Expansion at Robe River.

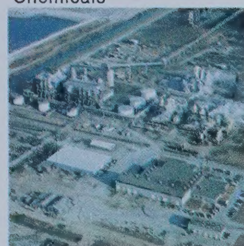
Platinum—South Africa.
Chromium—South Africa.
Nickel—Australia.

Farm Products

Greater use of Texasgulf land holdings.

Texasgulf Inc. 1974 Annual Report

Chemicals

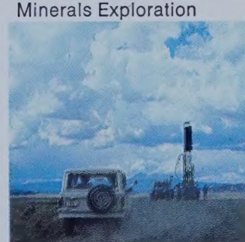


Farm

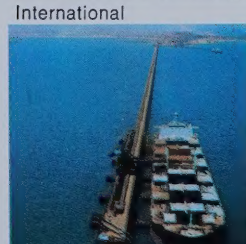
Metals

Oil and Gas

Minerals Exploration



International



1974 Highlights

Annual Meeting. The annual meeting of shareowners will be held in the Houston Club Building, Houston, Texas on Thursday, April 24, 1975. Notice of the meeting, proxy statement and proxy will be sent to shareowners on or about March 21, 1975.

Texasgulf's Form 10-K Report to the Securities and Exchange Commission for 1974 will be available upon request to the Corporate Secretary, Texasgulf Inc., 200 Park Avenue, New York, N.Y. 10017.

Texasgulf Inc. and Consolidated Subsidiaries

Comparative Highlights

	1974	1973	1972
Sales	$568,526,000	$363,776,000	$270,542,000
Net income	$147,442,000	$ 73,922,000	$ 30,562,000
Net income per share	$ 4.84	$ 2.43	$ 1.01
Dividends paid per share	$ .98	$ .64	$ .60
Working capital	$185,035,000	$114,176,000	$ 93,662,000
Ratio of current assets to current liabilities	2.3 to 1	2.7 to 1	2.5 to 1
Total assets	$976,937,000	$775,967,000	$711,430,000
Notes payable, less current portion	$133,265,000	$155,990,000	$172,140,000
Stockholders' equity	$560,113,000	$440,366,000	$385,254,000
Number of employees as of Dec. 31	4,345	3,971	3,805
Number of stockholders of record Dec. 31	66,881	64,841	80,247
Average number of shares outstanding	30,483,276	30,417,336	30,395,912

Ten Year Summary of Production (Figures are in short tons unless otherwise noted and indicate Texasgulf's share)

Product	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Sulphur (long tons)	2,494,000	2,639,000	2,868,000	2,839,100	2,955,500	3,043,700	3,030,000	3,031,000	2,993,000	2,603,000
Oil & Condensates (barrels)	248,900	248,700	244,000	226,000	277,000	304,000	289,100	297,900	334,800	367,000
Gas (million cubic feet)	20,754	17,786	17,861	14,836	11,646	10,657	10,000	9,557	8,280	8,000
Potash	616,200	513,800	518,400	266,900	430,800	440,100	410,000	338,000	286,000	99,000
Sulphuric Acid	1,560,000	1,137,000	1,035,000	744,000	670,000	686,000	697,000	525,700	24,000	
Phosphoric Acid (as 54% P_2O_5)	869,400	605,700	594,300	477,500	435,100	439,700	443,600	325,000	9,000	
Dry Phosphate Fertilizers	461,500	345,500	405,700	281,000	298,800	365,600	409,000	275,600	5,000	
Copper Concentrates	241,200	206,900	182,200	182,100	172,000	184,000	205,400	205,000	9,400	
Zinc Concentrates	580,400	589,900	616,700	590,800	582,800	582,100	562,500	432,000	28,000	
Lead Concentrates	36,200	36,900	42,100	61,900	70,400	93,900	96,000	43,000	1,000	
Silver (troy ounces in concentrates)	10,553,000	10,691,000	13,039,000	12,720,000	13,023,200	13,822,000	13,968,000	7,800,000		
Cadmium Metal (lbs. in concentrates)	3,151,000	2,960,000	3,034,000	3,214,000	3,201,000	3,156,000	3,049,000	1,989,000		
Zinc Metal (from Tg Zinc Plant)	107,900	107,100	60,100							
Iron ore sinter fines	738,400	460,000	156,200							
Iron ore pellets	429,300	387,000	34,500							
Gypsum (sales)	129,000	115,000	58,000							
Tin (lbs. in concentrates)	486,200									

To Our Shareowners:

In 1974 Texasgulf's sales and earnings were the highest in the company's history for the second consecutive year.

Sales amounted to $568,526,000 in 1974, compared with $363,776,000 in 1973, an increase of 56 per cent.

Net income for 1974 was $147,442,000, or $4.84 per share, compared with $73,922,000, or $2.43 per share in 1973, an increase of 99 per cent.

The fourth quarter of 1974 was the sixth consecutive quarter in which sales and earnings established new records for the same period in any prior year. While uncertainties in the economy became of worldwide concern in the latter part of 1974 and early 1975, Texasgulf's commitment and substantial investment over the past years in the development of essential natural resources have established a firm foundation for long-term growth in sales and earnings and in providing new jobs.

Texasgulf now benefits from its diversification, higher production and improved prices, but it is also producing depletable resources which were developed with less inflated money.

Richard D. Mollison Charles F. Fogarty

Higher Benefits for All

Texasgulf's performance in 1974 resulted in increased benefits for all those who share in the company's continuing profitable growth, namely governments, shareowners, employees, customers, the public and local communities.

Governments' participation in the company's continuing growth is indicated by the taxes charged in 1974, which amounted to more than the company's total revenue ten years ago.

Total tax expense, including Canadian and U.S. federal income taxes, property, sales, payroll and other taxes, amounted to $131,200,000. Income tax expense of $121,900,000 included current charges for U.S. federal income taxes of $10,300,000 and Canadian federal and provincial income taxes of $76,400,000. The balance is deferred. Deferred income taxes reduce current income and consequently earnings per share. They do not require current payment, thereby increasing cash flow which can be used for present operations.

Dividend Rate Increased

The quarterly dividend rate was increased from 19 cents to 30 cents per share, the highest rate in the company's history. Dividends paid to shareowners in 1974 amounted to $29,883,000 compared with $19,468,000 in 1973.

Salaries and employee benefits paid to our 4,345 employees worldwide amounted to more than $65,000,000.

Local communities benefited also from the nearly $150,000,000 Texasgulf paid for supplies, equipment and other material.

Texasgulf's new high level of sales and earnings is the result of the very large investments made in exploration, development and plant expansion in recent years. Since 1964 the net investment in property, plant and equipment has increased more than six times from $92.4 million to more than $583 million. Earnings in 1974 were almost fifteen times greater than those in 1964.

All Operations Improved

All of the company's operating divisions contributed to the increased sales and earnings in 1974. Chemicals

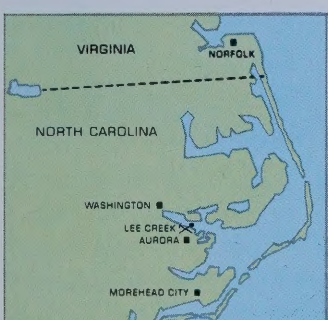
At Lee Creek, North Carolina, Texasgulf's phosphate fertilizer facilities set new production records in 1974. Further expansion will be completed in 1975 and future additions will make it the world's largest phosphate fertilizer complex.

and metals were the major contributors, with chemicals showing the greatest increase. Oil and gas also continued to improve in volume and profit. Expenditures for minerals exploration were at a new high.

Throughout most of 1974 all of the company's products were in strong demand and short supply worldwide. Sales were at a high level during the entire year. With the slowdown in the economy in the fourth quarter, the demand for certain metals, such as copper and zinc, slackened.

The outlook for chemicals, particularly for fertilizer materials, continues to be one of short supply. Over the longer-term, all of the natural resources produced and sold by Texasgulf—chemicals, fertilizers, metals, forest products, oil and gas—will be in strong demand.

Chemicals Division



Sales of the Chemicals Division amounted to \$260,315,000 in 1974 compared with \$143,289,000 in 1973. Dry phosphate fertilizer materials include granular triple superphosphate, diammonium phosphate, and run-of-pile triple superphosphate. Phosphoric acid is sold either as 54% P_2O_5 or as super acid, which is 70% P_2O_5. The Lee Creek, North Carolina, phosphate operation is also selling an increasing tonnage of by-product gypsum for use by farmers as a soil conditioner and fertilizer.

Production of agricultural and chemical products in 1974 compared with 1973 included:

(short tons of product)	1974	1973
Dry phosphate fertilizers	461,500	345,500
Phosphoric acid as 54% P_2O_5	869,400	605,700
Potash	616,200	513,800
Sulphur (long tons)	2,494,000	2,639,000
Gypsum (sales)	129,000	115,000

Plans for reclaiming the land mined in North Carolina were made long before the first draglines were ordered. Some 30,000 acres are being used to raise cattle, trees and crops.

Texasgulf is a major producer of three of the four basic fertilizer materials: phosphate, potash and sulphur—P-K-S. In 1974 plans were announced to add ammonia through a joint venture plant with Beker Industries. Texasgulf's 50 per cent share of the ammonia output from this plant will make it self-sufficient in the fourth basic fertilizer ingredient, nitrogen (N). It will then have N-P-K-S. Texasgulf also owns a 10.7 per cent interest in Beker Industries.

All fertilizer materials are in short supply. Anticipating the world's growing needs for more fertilizer to increase food output, Texasgulf has been making a major effort to increase production by expansion of its present plants and through increased emphasis on exploration for new deposits. There may be short periods of oversupply in the future, but the long-term outlook for fertilizers is one of increased demand.

Phosphate. At Lee Creek, North Carolina, Texasgulf has some of the world's largest phosphate reserves and is proceeding to build the world's largest phosphate fertilizer complex. Early in 1974 production capacity for sulphuric and phosphoric acids was increased by 50 per cent with the completion of the third 170,000 ton-per-year of 100% P_2O_5 unit. This brings annual capacity to 510,000 tons. Construction is in progress on a fourth unit scheduled for completion later in 1975. Total capacity will then be 680,000 tons per year of 100% P_2O_5. Two additional units of comparable size

Potash production at the Cane Creek Mine in Utah from solution mining and solar evaporation increased 23 per cent in 1974. New operating procedures in the evaporation pond area are designed to further improve production and reduce costs.

will follow, raising Lee Creek's total P_2O_5 capacity to more than 1 million tons per year.

Lee Creek's mining and ore processing facilities are being expanded to provide phosphate rock for all of these acid manufacturing expansions and make substantial additional rock available for sale.

With the fourth train, hydrofluosilicic acid will be added as a saleable product at the rate of 8,000 tons of equivalent 100% H_2SiF_6 each year for each 170,000-ton P_2O_5 unit. Dicalcium phosphate (Dical)—a solid animal feed supplement—utilizing high purity superphosphoric acid from Lee Creek will be manufactured. Other new products are under active consideration, including purified phosphoric acid to compete with electric furnace acid in the detergent, animal feed and food supplement industries. The feasibility of recycling gypsum to produce sulphuric acid, cement and wallboard is being studied.

Potash. Production increased in 1974 at the Cane Creek Mine in Utah and at the Allan Potash Mines in Saskatchewan.

Favorable weather and operating conditions resulted in an increase of 23 per cent over last year's production from the solution mining and solar evaporation potash operation at Cane Creek. Direct operating costs are less than those in Saskatchewan.

New operating procedures in the evaporation pond area designed to maximize the use of solar energy are expected to further reduce direct costs and increase production in the future.

The system for moving brine from the mine was modified late in 1974. Instead of pumping the brine from the wells, the whole system is now pressurized so that brine flows hydraulically from the wells. This should further reduce energy consumption.

During the year, experimental work was started on techniques for solution mining outside of the old underground mine workings. Should the techniques prove successful, it could lead to the mining of some of the many other beds of potash at Cane Creek where there are several high-grade beds below the one presently being mined. Utah, like Saskatchewan, has tremendous potential potash reserves.

The Allan Potash Mines in Saskatchewan, 40 per cent owned by Texasgulf, produced about 890,000 tons of product in 1974, an increase of 18 per cent over 1973. Although this was a new record, it still amounted to only 60 per cent of rated plant capacity.

With production and prices improving, 1974 could have been a turning point for the various companies which had made major capital investments in the development of potash mines in Saskatchewan. The government lifted its restrictions on potash production and permitted operations at rated capacity. But just as the industry was in a position to earn a fair return on its investments for the first time after many years of effort, near confiscatory taxes were imposed by the province of Saskatchewan.

Saskatchewan's huge potash reserves can be produced efficiently and are adequate to meet projected demand for decades to come. Texasgulf is confident that in the long term policies will be adopted by both the federal and provincial governments which will encourage the continued development of these reserves.

Sulphur. During 1974 production from Texasgulf's Frasch sulphur mines in Texas and in Louisiana was slightly less than in 1973. The large sulphur inventory declined slightly as shipments exceeded production by nearly 300,000 tons. Improvement in the price of sulphur, which increased 84 per cent during the year, justified continuing operation of the smaller and costlier mines. Production costs continued to rise with inflation and sharp increases in the cost of fuel gas. The price of natural gas, the primary energy source for Frasch mines, increased about 115 per cent during 1974. In the past three years the cost of gas used has increased more than 380 per cent.

A new Frasch sulphur mine to be known as Comanche Creek is being developed on a 7,680 acre lease in Pecos County, West Texas. The plant will have a capacity of 4 million gallons of water per day. Production should begin by the end of 1975 at the rate of 400 to 600 thousand long tons of sulphur per year, depending on thermal efficiency. This tonnage will help offset some of the decline in production at the older mines.

Production from the Frasch sulphur mine at Texistepec, Mexico, more than doubled to 781,200 metric tons in 1974. Texasgulf has a 34 per cent interest in the mine which is owned and operated by Compania Exploradora del Istmo.

Mexico. Production from the Frasch sulphur mine at Texistepec, Mexico, owned and operated by Compania

Construction of surface facilities for Texasgulf's soda ash mine and processing plant in southwestern Wyoming is on schedule to begin production in 1976 at the rate of 1 million tons per year, to be increased later in a second stage to 2 million tons per year.

Exploradora del Istmo (CEDI) in which Texasgulf has a 34 per cent interest, increased from 370,300 metric tons in 1973 to 781,200 tons in 1974. Shipments increased from 333,100 tons to 649,900 tons. Texasgulf continues to enjoy excellent relations with its Mexican government partner, Comision de Fomento Minero, agency of Secretaria del Patrimonio Nacional. Additional reserves of sulphur contiguous to Texistepec may be acquired soon by CEDI as the result of negotiations for a merger of Anamex with CEDI. Texasgulf has a 34 per cent interest in Anamex which it acquired from Mineral Resources International, a Canadian company, in 1972. The remaining 66 per cent of Anamex is owned by Fomento Minero.

Canada. Texasgulf continued to produce sulphur recovered from sour natural gas at three plants in Alberta at Okotoks, Whitecourt and Burnt Timber. Texasgulf shipments from Alberta increased from 397,100 to 428,300 long tons as world prices improved sufficiently to justify the increased costs of transportation.

Soda Ash

Plant construction and mine development continued for Texasgulf's soda ash mine and processing plant near Granger in southwestern Wyoming following favorable environmental impact studies and approvals by government authorities. Production at the rate of 1 million tons per year of saleable product is scheduled to begin in the third quarter of 1976. This will be increased to 2 million tons during the second stage of construction which should follow immediately.

Process and mine equipment is on order. The 4.2 mile railroad spur was completed to the plant site and is being used to deliver construction equipment and supplies. A ten-mile buried water pipeline has also been constructed.

The second 1,560-foot mine shaft is at more than 1,150 feet. The first mine shaft completed in 1969 has permitted underground production to continue for stockpiling of some ore and to permit the evaluation of different mining techniques. A new and larger continuous miner scheduled for delivery in the second quarter of 1975 will accelerate the program of underground development. More than 6 miles of development entries have been driven and the mine is almost ready for full production.

After sulphur, soda ash is the second most basic and important chemical. It is used in the chemical, glass, and many other industries. Natural soda ash from trona has been growing in demand as old synthetic plants based on sodium chloride and limestone are being abandoned because of high costs and pollution problems.

Ammonia

An ammonia plant will be reassembled near Carlsbad, New Mexico, and will be in production during 1976. Texasgulf and Beker Industries will each have a 50 per cent interest in this 145,000 ton-per-year plant. Texasgulf will then be self-sufficient in ammonia for use in making diammonium phosphate. Additional ammonia production at other locations in Texas, Louisiana and New Mexico is being considered.

Caustic Soda and Chlorine

Feasibility studies for a 1,200 ton-per-day caustic soda-chlorine plant are in progress. Salt from Boling Dome, one of Texasgulf's sulphur properties at Newgulf, Texas, would provide the feedstock. Caustic soda is an industrial chemical which complements soda ash as a source of sodium. Chlorine is another related chemical serving as a basic feedstock for the petro-chemical industry.

Marketing Outlook for Chemicals

Phosphate. World consumption of phosphate fertilizer materials increased from 22.8 million tons in 1973 to 24 million tons in 1974. The Fertilizer Institute forecasts that 1975 fertilizer demand will set an all-time record as a result of the surge in wheat and corn acreage.

Morocco, the world's leading exporter of phosphate rock, tripled the price for phosphate rock from $14 a ton for 75-77% BPL to $42 a ton in May, 1974, further increased the price to $63 a ton on July 1, and later to $68, almost a fivefold increase. Florida rock prices at year's end were considerably less at $47 per ton.

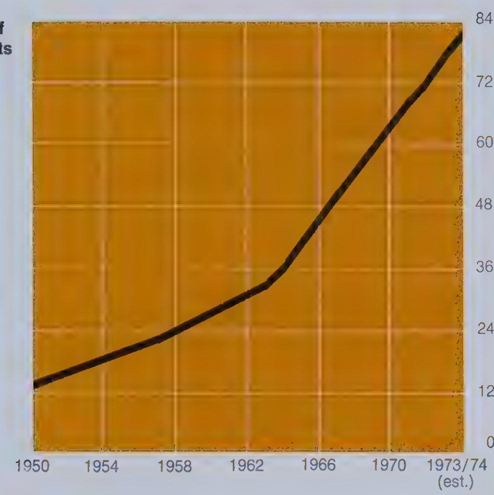
During 1974 domestic list prices for diammonium phosphate increased from $115 to $210 per ton; for granular triple superphosphate from $90 to $160 per ton; for run-of-pile triple superphosphate from $85 to $156; for 54% acid from $105 to $189 and for super-acid from $150 to $266. Export prices were consider-ably higher.

Potash. With demand increasing and worldwide production limited, potash was in short supply. The domestic list price of coarse muriate of potash moved from $25 per ton to $37 per ton and other products increased proportionately. Early in 1975 potash product in export was selling at prices between $85 and $90 per ton.

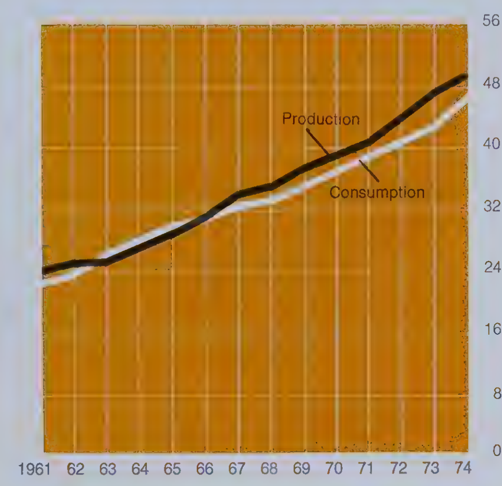
World consumption of muriate of potash rose from 18.7 million tons in 1973 to 20.3 million tons in 1974.

Sulphur. World consumption of sulphur reached a new high in 1974. Demand continues to grow in the phos-phate fertilizer and chemical industries. More than 50

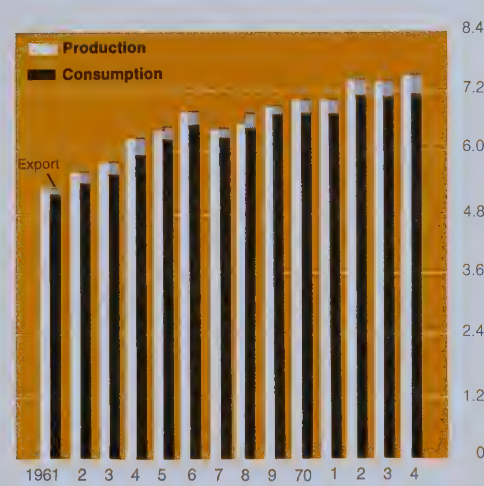
World Consumption of Primary Plant Nutrients
(millions of metric tons)



Production and Consumption of World Sulphur in All Forms
(millions of long tons)



U.S. Production and Consumption of Soda Ash
(millions of short tons)



In the shadow of Texasgulf's zinc plant at Timmins, Ontario, one of the Farm Division's two herds of woodlands buffalo is grazing. Another herd is at Johnsonburg, Pennsylvania.

per cent of all sulphur is used in the phosphate fertilizer industry. About 0.9 long tons of sulphur is required to make one ton of 100% P_2O_5.

Major expansions in the phosphate fertilizer industry are presently under construction. They will increase the demand for sulphur by more than 2 million tons per year in the United States alone over the next two years. It may be difficult for the industry to supply all of the sulphur needed for these new expansions.

Domestic sulphur prices remained under the control of the Cost of Living Council during the first part of 1974. The first price increase of $5.50 per long ton became effective May 1, 1974 and was followed by subsequent increments of $5.50, $8.00, and $6.00 per long ton. The effective price at year's end was $57 per long ton f.o.b. Tampa, Florida. Sulphur prices for delivery to international markets were at much higher levels during this period.

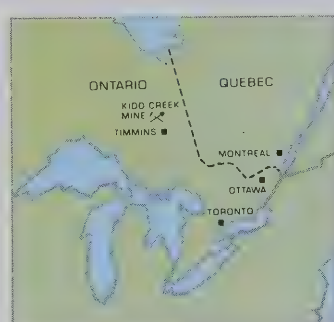
On March 1, 1974, Texasgulf announced an increase of $5 to $20 per long ton for its sulphur produced from sour natural gas in western Canada for delivery to customers in Canada and the United States. This price was increased to $25 per long ton on June 1, 1974. Unlike Frasch operations, which primarily use water transportation for the distribution of liquid sulphur, Alberta production moves to domestic markets principally by rail. Exports from the port of Vancouver, B.C., move by rail to that port for loading.

Soda Ash. The demand for soda ash continues strong in both the domestic and export markets, and demand is expected to continue to exceed supply. During 1974 most United States producers increased prices and discontinued freight equalizations. At the end of the year, prices were over $40 per ton f.o.b. plant with no freight equalization.

Farm Division

Texasgulf's Farm Division will consolidate the company's land holdings and employ them not only for timber and forest products but also for cattle raising and crops such as corn, soybeans, alfalfa and other products for a needy world. In Pennsylvania and Ontario, 252,000 acres are devoted to timber. More than 30,000 acres in North Carolina and 26,700 acres in Texas will be utilized for crops, feed grains and timber. A herd of over 2,000 beef cattle in North Carolina is being expanded and two herds of woodlands buffalo are grazing in Johnsonburg, Pennsylvania and Timmins, Ontario.

Metals Division



Sales of the Metals Division amounted to $290,633,000 in 1974 compared to $214,930,000 in 1973.

Production at the Kidd Creek Mine and concentrator in Timmins, Ontario, owned and operated by Texasgulf Canada Ltd. (formerly Ecstall Mining Limited), continued at a high level in 1974. About 3.72 million tons of ore were processed compared to 3.61 million tons in 1973.

Overlay indicates areas adjacent to Texasgulf's Kidd Creek concentrator and zinc plant where copper smelter and refinery will be built and phosphate fertilizer facilities may be added.

Ore produced and processed in 1974 compared to 1973 included:

	1974	1973
Copper concentrates (short tons) (25% copper)	231,700	205,600
Copper-silver concentrates (short tons)	9,500	1,300
Lead concentrates (short tons)	36,200	36,900
Zinc concentrates (short tons) (52% zinc)	580,400	589,900
Zinc metal (short tons)	107,900	107,100
Sulphuric acid (short tons)	188,300	188,900
Cadmium metal (pounds)	782,200	1,133,300
Silver contained in concentrates (troy ounces)	10,553,000	10,691,000
Tin contained in concentrates (pounds)	486,200	—

The Kidd Creek zinc plant by year's end was operating at its design level of 120,000 tons of zinc metal per year.

As an expression of Texasgulf's confidence that the uncertainties created by federal and provincial taxation proposals would be resolved favorably, work continued during 1974 on the construction of the shaft for the second underground mine at Kidd Creek and on plans for a copper smelter and refinery. The final decision to proceed with a second mine shaft which will increase mine production to nearly 5 million tons annually, and to construct a 130,000 ton-per-year copper smelter, was made in March, 1975 following legislative approval of the amended Ontario Mining Tax Act and publication of the regulations.

Mine Production. During 1974 mining continued from both the open pit and underground. About 2.7 million tons of ore were mined from the open pit and 968,000 tons from underground. Underground production was from the 800-foot and 1,200-foot levels. Safer and more efficient underground mining is being developed with the use of large rotary-drilled blast holes for stoping. This drilling technique is similar to that used in open pit mining.

A dramatic recent aerial view of the Kidd Creek Mine at Timmins shows the open pit with the exterior structure of the headframe for the second underground mine completed. Surface facilities in the foreground include ore bins and the steel framework for the new backfill manufacturing plant.

During the last five years underground mining operations have been developed from a shaft 3,000 feet in depth with levels opened at intervals of 400 feet from 800 feet down to the 2,800-foot level. In addition to the shaft, an inclined ramp provides access from the surface to the 800-foot, 1,200-foot and 1,600-foot levels, and will eventually reach the shaft bottom.

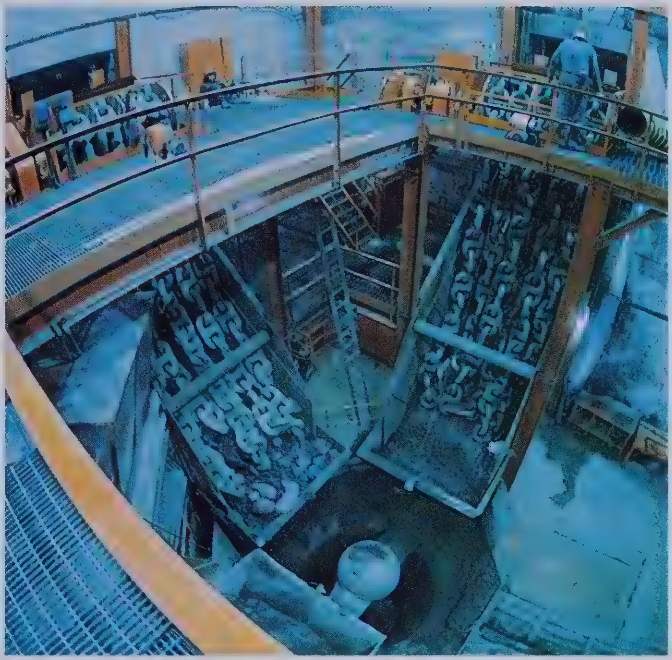
The headframe of the second mine shaft, which will extend to a depth of 5,300 feet, just over one mile, was slip-formed to its design height of 210 feet on October 30, and work on the shaft began with a six foot bore hole from the 2,800-foot level to the surface. This bore hole will be enlarged to the full shaft diameter of 25 feet. Conventional sinking will be used below 2,800 feet.

Ore Reserves. From the start of operations in November 1966, through December 31, 1974, the Kidd Creek Mine produced a total of 28.6 million tons of ore that assayed 1.56 per cent copper, 0.38 per cent lead, 9.66 per cent zinc and 4.3 ounces of silver per ton.

At the end of 1974 unmined ore reserves above the 2,800-foot level were estimated at 94 million tons. No definite estimate of reserves below the 2,800-foot level has been made. However, exploration work to date indicates sufficient ore reserves to support the operation of the deeper mine for many years. Copper grade increases with depth, and zinc decreases. The orebody is still open at depth and the deepest drilling intersection is approximately 5,000 feet beneath the surface. Other ancillary orebodies are expected to be found in the immediate area.

Ontario Mining Tax Impact. Texasgulf Canada Ltd. is proceeding with the copper smelter and refinery and the mine-concentrator expansion projects at Kidd Creek which had been described previously. This decision followed the enactment of Bill 111 amending the Ontario Mining Tax Act and the publication of regulations. Although the Act now provides a graduated but very high tax rate rising to 40 per cent on taxable profits in excess of $40 million, a number of important incentives are included to encourage the construction of mineral processing and semi-fabricating facilities in Northern Ontario. Incentives are also provided for new mines and major expansions of existing mines.

Under the new program, a processing allowance of 30 per cent of the actual cost of the Kidd Creek zinc plant and the new copper smelter and refinery, computed on the basis of year-end figures as spent on construction, and that portion of the concentrator supplying feed to them, will be allowed as a deduction in computing taxable profit. This is subject, however, to a maximum allowance of 65 per cent of the combined mining and processing profit. For semi-fabricating facilities, including any fertilizer plants at the site which would use sulphuric acid from the smelting operations, a 35 per cent processing allowance is provided. The regulations provide that the maximum allowance, with respect to semi-fabricating assets, may be increased above the 65 per cent figure.



The crushing plant at the 2,800-foot level of the Kidd Creek underground mine is one of the largest and deepest of such installations in North America.

Timmins Fertilizer Complex. Plans are under way to construct a major phosphate fertilizer complex at Timmins provided appropriate incentives, including an increase in the maximum processing allowance, can be obtained to make the operation competitive. This operation would use sulphuric acid from the Kidd Creek zinc and copper smelting facilities combined with phosphate rock shipped from North Carolina. As a back haul, pyrite might be shipped from Kidd Creek to Lee Creek to produce sulphuric acid. The first unit at Kidd Creek would be comparable in size and design to the

On Baffin Island, the first commercial mine in North America north of the Arctic Circle is being brought into production. The operating company will be called Nanisivik Mines Ltd. Nanisivik is the Eskimo word for "where people find things."

phosphoric acid units at Lee Creek, each of which has a capacity of 170,000 tons per year of 100 per cent P_2O_5. Additional facilities using the by-product gypsum to produce sulphuric acid and cement as backfill for the Kidd Creek Mine would follow.

New metal mines. On Baffin Island Texasgulf retains a 35 per cent net profits interest after recovering money spent to date on the zinc-lead property discovered by Texasgulf in 1957. It will be operated by Nanisivik Mines Ltd. and will be the first mine in North America north of the Arctic Circle. Texasgulf also owns 333,333 shares of Mineral Resources International, the parent of Nanisivik. The property should be in production in 1976 and will produce annually about 130,000 tons of zinc concentrates and 10,000 tons of lead concentrates with some silver. Texasgulf will purchase 20 per cent of the zinc concentrates produced and will furnish, if needed, up to $10 million in overrun financing.

Another potential metal mine is at Half-Mile Lake, near Newcastle, New Brunswick, where Texasgulf has about 6 million tons of zinc-lead ore reserves, with some copper. As a result of a 1974 agreement with Bay Copper Mines, the adjoining property will be consolidated with Texasgulf's. Under the agreement, Bay Copper will have a 10 per cent carried interest in the combined properties. Deep drilling is now in progress to develop additional reserves.

Metals Demand. 1974 was a good year for the metal markets. Although consumption of fabricated products decreased after the second quarter, demand for metals remained strong until the fourth quarter. Prices for the year were higher than the averages for 1973.

Texasgulf's price for zinc increased in the U.S. from 31½ cents per pound in stages to 38.8 cents per pound for special high grade in July and remained at that level for the balance of the year. The European producer price for zinc, which is applicable to most of Texasgulf's zinc concentrates, increased from 31 cents to 37½ cents per pound.

Total zinc concentrates consumed or sold during 1974 exceeded production, reducing Texasgulf's inventory by 41,000 tons.

The outlook for zinc in 1975 will depend on improvement in the economy predicted by many for the third quarter. The automotive and construction industries are major zinc users. Prices are expected to remain near current levels because of increasing costs of production and a worldwide shortage of zinc concentrates. For the long term, the outlook for zinc is very favorable. With improved thin-wall diecasting techniques, zinc diecasting is more competitive with plastics which depend upon higher cost petrochemicals for feedstocks.

Copper was very strong in the first half of 1974 but weakened in the fourth quarter. Prices reached a high of $1.52 per pound on the London Metal Exchange in April 1974 but fell off by year-end to about 55 cents per pound. In North America, where 80 per cent of Texasgulf's copper is sold, the price in January was 74 cents per pound and reached 87 cents by July. It fell in steps during the last quarter and was at 63 cents per pound in early February 1975.

Silver demand remained quite strong throughout the year. Prices fluctuated between $3.25 and $6.70 per ounce early in the year and in a narrower range near $4.25 in the second half, with the large early fluctuations probably due to speculation.

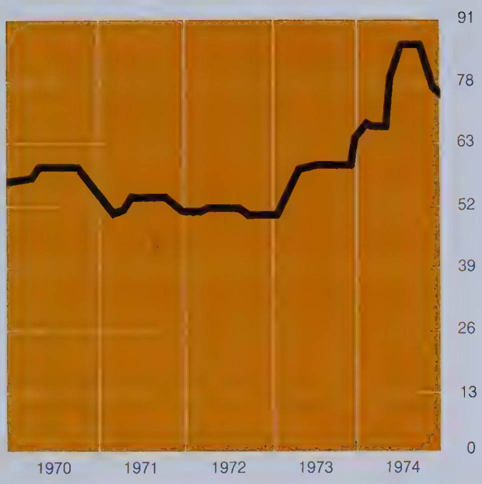
The demand for cadmium fell off rapidly in the last half of 1974 and will probably remain at a low level at least through the first half of 1975.

Lead prices increased from 19 cents to the present 24½ cents per pound during the year.

Tin prices were strong in 1974, and the current price of over $3.20 per pound appears relatively stable.

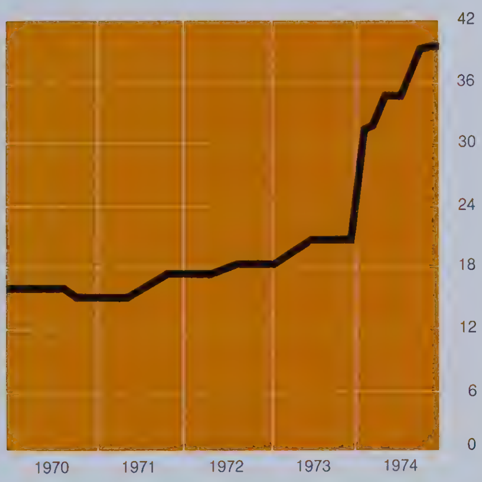
Copper Prices
(cents per lb.)

Monthly
Average



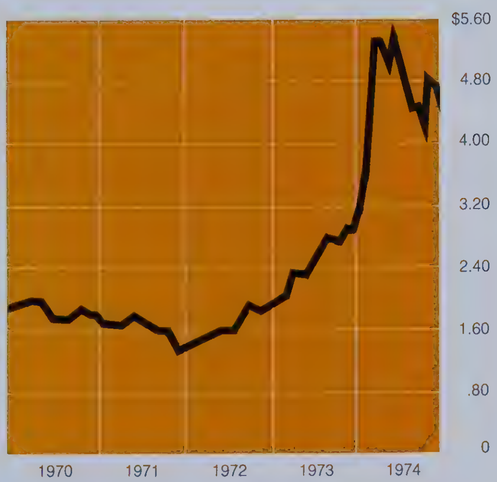
Zinc Prices
(cents per lb.)

Monthly
Average



Silver Prices
(dollars per oz.)

Monthly
Average



Oil and Gas Division

Gross sales of oil and gas in 1974 amounted to $8,980,000, compared to $4,886,000 in 1973.

During the past five years Texasgulf's Oil and Gas Division has methodically laid the groundwork for substantial future growth. Domestic and foreign exploration programs have been expanded, an experienced staff built up and significant acreage acquired. Production and sales increased in 1974, and additional increases are expected during 1975. New properties coming on stream in the Gulf of Mexico and development programs in Alberta and Saskatchewan will add significantly to the present production capability.

Oil and gas production in the United States and Canada in 1974 and 1973 included:

	1974	1973
Oil and condensates (bbls.)	248,900	248,700
Gas (million cubic feet)	20,754	17,786
Natural gas liquids (thousands of gallons)	1,700	2,000

Prices for hydrocarbon products continue to increase with oil and condensate selling for about $10 per barrel. Gas sales are regulated by the Federal Power Commission, but Texasgulf is receiving 47 cents or more per thousand cubic feet for gas from its most recently completed wells in the Gulf of Mexico. The importance to future energy development of removing gas price regulations is being increasingly recognized. At 47 cents per thousand cubic feet, gas is being sold at the heat (Btu) equivalent basis of only $2.82 per barrel of oil, an unrealistically low price.

Oil and Gas Exploration and Development. The Oil and Gas Division expects increased production from properties in Alberta, Louisiana, Texas and offshore Louisiana in the Gulf of Mexico during 1975. The company's exploration activities in Alberta, Saskatchewan, Alaska, the Gulf of Mexico, Mississippi, Oklahoma and the Williston Basin, in Montana and North Dakota, as well as in other areas of the U.S. and Canada, have resulted in land lease holdings increasing to a total of 1,760,000 gross acres, or a net of 500,000 acres to Texasgulf.

Texasgulf is participating in two of the more significant deep offshore drilling tests in the eastern Gulf of Mexico.

Overseas, exploration programs are active in several areas. The total acres overseas in Pakistan, Thailand, the Malagasy Republic, Senegal and Nicaragua amount to 25,231,000, with Texasgulf's net at 9,821,000 acres.

Gulf of Mexico. In partnership with several major oil and gas companies, Texasgulf has been successful in bidding for significant acreage in various federal offshore lease sales held over the past several years. Five of 11 properties acquired in offshore Louisiana will be in production in 1975. Three were abandoned in 1974, and three await further evaluation. Texasgulf's shares in these tracts range from 20 to 33⅓ per cent.

One of the tracts scheduled for new production in 1975 is Block 480 in the West Cameron area offshore Louisiana. Texasgulf has a 20 per cent interest in this tract acquired in the federal lease sale in December, 1972 with Phillips Petroleum, operator for the group, Allied Chemical, American Petrofina, and Skelly Oil. An 18-slot drilling and production platform was constructed in 1974. Gas from this property is uncommitted. Three major gas transmission lines are in close proximity to Block 480 and a sales contract will be negotiated in the near future.

Gas sales from Block 544, West Cameron will start in early 1975 at a rate of about 8 to 10 million cubic feet per day. It will be the third lease acquired in the December, 1970 federal sale to go into commercial production. Production from Block 146, West Cameron, and Block 273, East Cameron, began in 1973.

Texasgulf was active in bidding for leases in three federal sales in 1974 in partnership with others and by itself. The only successful bid was one in which Texasgulf bid alone on East Cameron Block 228 offshore Louisiana, acquiring sole interest in 5,000 acres for $5,175,000.

In a federal lease sale offshore south Texas on February 4, 1975, Texasgulf, as a participant with Amoco, Northern Natural Gas, Total Leonard, Allied Chemical and others, won leases on 5 tracts totaling 28,740 acres. Texasgulf's interest is 20 per cent on 4 tracts and 50 per cent on 1 tract for a total of $3,625,844.

In sales held by the state of Texas in 1974, Texasgulf was successful in leasing 33,900 acres in the near offshore in the Gulf of Mexico. With Pan Canadian (a

subsidiary of Canadian Pacific Railroad), Northern Natural Gas and Corpus Christi Oil & Gas, Texasgulf has interests in seven prospects varying between 37.5 and 75 per cent. Any reserves established can be dedicated to an intrastate market or utilized by Texasgulf internally.

In the eastern Gulf of Mexico, Texasgulf has joined other major oil companies in two of the more significant tests to be drilled in that area. The first Jurassic test was completed early in March to a depth of 17,608 feet with no commercial shows of oil or gas. A second well scheduled to a depth of 18,500 feet is continuing. The wells are on or adjacent to tracts in which Texasgulf owns a 15 per cent interest. The results from these holes will be critical in determining the oil and gas potential of the eastern Gulf of Mexico.

Onshore. Texasgulf has initiated programs in several onshore basins which offer attractive potential. Leasing and exploration projects in 1974 and early 1975 were conducted in the Williston Basin, Anadarko Basin, Arkoma Basin and the Mississippi Salt Basin. More than 35,000 acres are under lease in the Williston Basin, and approximately 8,000 acres have been assembled in the Blodgett Prospect in Mississippi, a deep Jurassic Smackover limestone play on a very large structure.

Alaska. In Alaska Texasgulf is continuing its seismic data acquisition and interpretation programs through various exploration groups. In the Beaufort Sea area, on Alaska's northern continental shelf, Texasgulf is associated with major oil companies in preparing for state and federal sales which should be held during 1976. In the Cook Inlet, Cities Service operates for a group including Texasgulf and Getty. Acquisition and analysis of seismic data is almost complete in preparation for either a federal or state sale. During 1974 Texasgulf acquired seismic data in the Gulf of Alaska which has been interpreted in anticipation of an early federal sale.

Canada. During 1974 the first phase of a pilot research project near North Battleford, Saskatchewan gave highly encouraging results. Extensive accumulations of heavy oil, measured in billions of barrels, are a major potential resource which could make a substantial contribution to the energy needs of Canada provided government policies are developed to encourage the major capital investments required.

The goal of the research project was to determine if the high viscosity oil could be produced under controlled conditions by steam injection. A test completed in September proved that the oil formation will give up appreciable quantities of oil after intensive steaming. The test well produced 100 barrels of oil per day for several days before technical difficulties and weather required suspending operations for 1974. The pilot operation may be expanded to a five-well test program and resumed in the spring and fall of 1975. It is hoped that sanding problems can be solved and government policies adopted which will encourage such larger research and developmental expenditures.

Texasgulf and Total Petroleum (North America) Ltd., a subsidiary of Compagnie Française des Petroles (CFP), have made an agreement whereby Total will pay Texasgulf $400,000 for a 50 per cent interest in the heavy oil project. The agreement calls for an additional payment to Texasgulf if Total elects to continue beyond the pilot phase, with each company sharing the operating expenditures.

In Alberta the rate of oil and gas production at Provost was substantially increased in 1974 by adding new compression capability. Some 40 new producing wells have been completed. A water-flood project is being considered to increase the oil production. Other operators in Provost Field have increased their rates of production from four to seven times through similar programs.

Pakistan. An agreement was signed October 14, 1974 between Texasgulf and the government of Pakistan for hydrocarbon concessions covering 11,000 square miles, or more than 7 million acres, in the Indus River Basin. The Pakistani government has an option to acquire up to a 40 per cent interest if commercial oil or gas production is established. In a significant departure from previous policy, the Pakistani government also granted Texasgulf the right to process and to export natural gas. Pakistani Texasgulf Inc., a wholly owned subsidiary, has established an office in Karachi to conduct this exploration program.

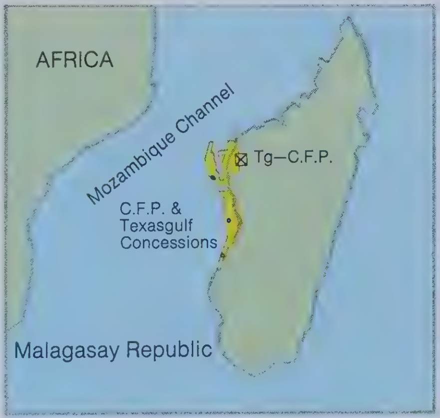
A gravity and magnetic survey of the concessions will begin during the first quarter of 1975, to be followed by a seismic survey. Drilling could begin as soon as these exploration surveys indicate suitable targets.

Malagasy Republic. In the Malagasy Republic, Texasgulf and CFP jointly hold a 7 million acre concession on and off the west coast of the island of Madagascar. Hispanoil, a Spanish government oil company, has a farmout, and has conducted geophysical surveys designed to establish a drilling prospect to test the Isalo formation. This formation outcrops east of the concession area where it contains one of the world's largest tar sand deposits. Hispanoil can elect to drill and earn a 40 per cent interest in the concession. Texasgulf will retain 20 per cent.

Nicaragua. Texasgulf has a one-eighth interest in an oil and gas concession covering 3 million acres off the Pacific coast of Nicaragua. Partners in the venture are Royal Dutch Shell, El Paso Natural Gas Company and Oceanic Exploration Company. Several large structures have been mapped. Texasgulf and its partners are evaluating seismic data from a recent survey and information from a test well drilled by El Paso on an adjacent concession. An exploration well is planned in 1975 as soon as drilling equipment is available.

Thailand. Texasgulf has an option to acquire a 10 per cent interest in an exploration permit, Block W-7, off the west coast of Thailand. The permit covers almost 5 million acres. Geophysical surveys undertaken by the permit holder indicate numerous large structures in a thick sedimentary section with favorable petroleum geology.

Senegal. Texasgulf jointly with CFP has concessions totalling 3,400,000 acres in Senegal. Large deposits of heavy viscous oil have been discovered on several structures, but engineering studies during the year have indicated that the production potential is as yet uneconomic. The concession in Senegal is presently under farmout to Royal Dutch Shell which completed a



Typical of minerals exploration being conducted by Texasgulf in many parts of the world is this scene from an educational sound-slide film, "Major: Miner," one of a series produced by the company in cooperation with the Colorado School of Mines. These films have helped stimulate the interest of high school students in a career in the earth sciences.

1,500-kilometer seismic survey during 1974. The new seismic data have confirmed the existence of several large untested structures. Shell has elected to start drilling a 15,000-foot well before the end of 1975 to test one of the larger and more prospective structures in about 400 feet of water. Texasgulf retains a 13½ per cent interest in the concession.

Minerals Exploration Division

Texasgulf believes that exploration is the life blood of a natural resources company. Almost everything the company has today has resulted from its own exploration and development efforts. For that reason, heavy emphasis continues to be placed on exploration. Texasgulf fully expects to be as successful in the future as it has been in the past in making new mineral discoveries.

Texasgulf continues to explore worldwide for minerals, with emphasis in the United States, Canada and Mexico. In 1974, Texasgulf geologists and geophysicists also carried out programs in Australia, Egypt, Ireland, Panama, the Philippines, South Africa and Spain.

In the Northwest Territories, Canada, limited drilling has indicated about 400,000 tons of massive sulphides, assaying approximately 4 per cent copper, 4.8 per cent zinc, and 1.0 ounce per ton of silver with gold to a depth of 250 feet. The prospect is open at depth and on one side. Exploration will continue on this and other mineralized areas in the Northwest Territories during the summer of 1975.

In British Columbia, a porphyry copper property in the north central part of the province will have additional drilling in 1975. The first hole in 1974 indicated mineralization to a depth of at least 500 feet. Geological studies and drilling at the Robb Lake lead-zinc prospect in northeast British Columbia are continuing.

About 30,000 feet of drilling has been done on a uranium project in Wyoming. Results are encouraging and work will be continued this year.

Drilling is under way for copper-zinc mineralization in western Idaho, eastern Oregon and northwestern Washington. Porphyry copper exploration is proceeding in Arizona.

During 1974 exploration for phosphate and sulphur included active programs in the United States and continuing studies of deposits in other countries.

Gold exploration is under way in the United States, Panama and Spain.

Metallurgical testing is continuing on drill core samples of platinum ore from the Pandora property in South Africa. Various studies are being made to evaluate the potential of this large low-grade platinum and chromium property.

In Western Australia, the nickel-copper deposits at Sherlock Bay and Mons Cupri continue under study.

International Division

Robe River. Production at the Robe River iron ore mine and processing complex in Western Australia in 1974 exceeded design capacity despite several labor stoppages and difficulties in maintaining sufficiently skilled crews. The $300 million Robe River operation, in which Texasgulf has a 10.5 per cent interest, produced 7.03 million tons of fines and 4.09 million tons of pellets. Even with increased fuel costs, higher wage rates and interest charges, the operation was profitable in 1974. Iron ore price increases were negotiated, partly offsetting the higher costs. The 1974 operation resulted in a profit to Texasgulf of $700,000.

A second loadout facility at the mine is being constructed to increase the production capacity from 13 to 17 million tons per year at a cost of $21.7 million.

Marandoo. A 30,000-ton bulk sample is being mined at the Marandoo iron ore project in Western Australia for shipment in April 1975 to the Japanese steel mills. These full scale tests are for confirmation of the previous smaller scale testwork done in Japan which showed the Marandoo ore to be of very high quality. Seven trading companies headed by Mitsui & Co. Ltd. have been chosen by the steel mills as agents for the Marandoo project. Sales contract negotiations will begin shortly.

Discussions for ore sales to the Middle East and to Europe continue.

Feasibility studies are being updated to reflect higher construction and operating costs.

A Japanese steel mission visited the Marandoo iron ore project in Western Australia in August, 1974. Texasgulf has a 50 per cent interest in the Marandoo reserves which are among the largest and richest in the world.

Giles and Rhodes Ridge. Several hundred million tons of ore equal in quality to Marandoo are being outlined in the Giles area immediately to the west of Rhodes Ridge. A new field camp has been opened at Giles to evaluate one exceptionally high-grade deposit containing over 66 per cent iron and very low phosphorus, silica and alumina. This deposit will be mined after Marandoo is in production.

Ship-loading pier for the Robe River iron ore operation at Cape Lambert extends 1¼ miles into the Indian Ocean. Texasgulf has a 10.5 per cent interest in the operation which produced more than 7 million tons of iron ore fines and more than 4 million tons of iron ore pellets in 1974.

Rhodes Ridge evaluation work continues with plans to develop it after Marandoo and Giles.

Peabody Coal Acquisition Offer

Texasgulf in partnership with others is one of several groups which have made offers to buy the Peabody Coal Company, a subsidiary which Kennecott Copper Corporation must sell under a federal government order. Peabody is the largest coal producer in the United States. Texasgulf would have a 25 per cent interest. Other participants in the offer are Newmont Mining, the Williams Companies, The Cleveland-Cliffs Iron Company, and two major life insurance companies.

The acquisition by the ultimate purchaser is subject to approval by the Federal Trade Commission as well as by Kennecott.

Directors' Meetings

During 1974 and early 1975 many of Texasgulf's board meetings were held at locations which facilitated trips by the directors to several of the company's operations, including Frasch sulphur operations in Texas and Mexico, the Lee Creek phosphate fertilizer complex in North Carolina, the Kidd Creek metals mine and concentrator in Ontario, the sour gas sulphur recovery plant

at Okotoks in Alberta, the Cane Creek potash mine in Utah, the soda ash project in Wyoming, and the research facilities in Golden, Colorado.

Organization Changes
At the annual meeting on April 25, 1974 the board was increased from eleven to twelve members. Dr. Guy T. McBride, Jr., president of the Colorado School of Mines, and Richard M. Thomson, of Toronto, president of The Toronto Dominion Bank, were newly elected directors. Alex E. Barron of Toronto, president, Canadian General Investments Limited, did not seek reelection.

E. Orys Mason, senior vice president, Frasch Sulphur Division, retired December 1 after an outstanding career covering nearly 47 years of loyal and dedicated service with the company.

Quarterly Dividend Increased
On July 11 the quarterly dividend was increased from 19 cents to 30 cents per share payable September 14, 1974, to shareowners of record on August 15, 1974.

Quarterly dividends of 19 cents a share were paid on March 15, and June 15, and quarterly dividends of 30 cents per share were paid on September 14 and December 15.

Employee Shareownership Plan
One of the most significant events of 1974 was the adoption of a new plan under which all employees of the company became shareowners as well. Under the Employee Shareownership Plan (ESP), all full-time employees except senior officers received one or more shares of Texasgulf common stock depending on years of service.

In the initial distribution in November, 1974 employees with less than five years of service received one share; employees with five to 10 years of service received five shares; those with 10 to 15 years of service received 15 shares; those with 15 to 20 years of service received 30 shares; and employees with 20 or more years of service received 50 shares.

Beginning in 1975, every employee on each fifth anniversary of employment will receive one share of stock for each year of service. In the initial distribution slightly over 40,000 shares were awarded.

The primary objectives of ESP are to further recognize the loyal service of employees and to promote a better understanding of the free enterprise system and the common interests of employees, shareowners, and governments in the company's continuing growth.

Charles Luco, hoist operator at Texasgulf's Newgulf Frasch sulphur operation, has 28 years of service with the company. Under the new Employee Shareownership Plan, he became the owner of 50 shares of Texasgulf stock.

Again in 1974 Texasgulf employees contributed greatly to the company's record performance. On behalf of the board of directors, we would like to express our appreciation to all Texasgulf employees, shareowners, customers and community neighbors for their contributions, support and interest throughout the year.

Respectfully submitted,

Charles F. Fogarty

Charles F. Fogarty
Chairman of the Board
and Chief Executive Officer

R. D. Mollison

Richard D. Mollison
President

March 13, 1975

Financial Review

At the end of 1974, working capital amounted to $185,035,000, total debt outstanding was $156,356,000 and total assets were $976,937,000. Net assets amounted to $560,113,000, with $272,915,000 outside the United States. Canada accounted for $224,946,000 (not including $99,606,000 (U.S.) of the Canadian dollar long-term notes payable and $15,500,000 long-term notes payable of a subsidiary); Australia, $23,315,000; and other countries, mainly Mexico, $24,654,000.

At year-end, short-term investments amounted to $125,172,000. Internal cash generation from operations is expected to continue at a high level. This, together with short-term investments, should provide sufficient cash for the capital expenditures planned for 1975, after providing for current debt service, substantially higher cash payments on income taxes, and dividend payments.

If any outside financing is required, bank lines of credit in the amount of $89,000,000 remain unused at year-end. More is available if needed. If all of the 1975 programs are not completed, the excess cash remaining at year-end will be available for the continuation of five-year capital expenditure plans. Outside financing may be required in 1976.

Capital Expenditures. The Company continues to explore, develop, expand and diversify throughout the world. The total amount spent on capital expenditures during 1974 was $103,000,000 which is approximately the amount originally budgeted.

New and expanded facilities for Chemicals cost about $54,000,000. More than $31,000,000 was spent on the expansion of the phosphoric and sulphuric acid facilities at Lee Creek, including $19,000,000 for construction of the fourth unit. Normal replacements and improvements for sulphur operations and potash totalled about $5,000,000. Construction of the soda ash mine and surface facilities in Wyoming approached $18,000,000 during 1974. The rate of expenditures will greatly accelerate during 1975.

The Metals Division spent nearly $22,000,000 at the Kidd Creek Mine. At the mine site some $3,000,000 was spent, including over $1,000,000 for work on the backfill system which will permit complete underground ore recovery. About $4,000,000 was spent at the concentrator. The zinc plant required $4,000,000 for various improvements. About $7,500,000 was spent for work on the No. 2 mine and expansion and centralization of support facilities.

Nearly $18,000,000 was spent for exploration. Over $13,000,000 was for oil and gas, including more than $9,000,000 for offshore bids in the Gulf of Mexico.

Capital expenditures for 1975 have been planned at a much higher level than ever before to provide for the continuation of present projects and the commencement of many others. Over $300,000,000 has been planned, but some of this may not be committed, and certain plans may not be fully realized.

The Chemicals Division may use about half of the total budget in 1975. Included are $10,000,000 for the new Frasch mine at Comanche Creek, $30,000,000 for work on the fourth phos-acid unit, and $50,000,000 for continued construction and development of the soda ash project.

The Metals Division plans expenditures of $74,000,000. This includes continuing work on the No. 2 underground mine and commencement of design, engineering and construction of the copper smelter and refinery. The International Division has budgeted $17,000,000 including the beginning of commercial development of the Marandoo iron ore project in Australia. The Oil and Gas Division has scheduled $10,000,000 for production facilities and $26,000,000 for exploration. Minerals exploration plans are increased over last year.

Financing. The total amount outstanding at year-end on the Canadian dollar term notes due in 1979 was $100,000,000 (Canadian), with interest at ½ of 1% over the banks' minimum commercial lending rates. The overall interest charge on the Canadian borrowings averaged 11.2% during 1974 and was at the rate of 11.5% at year-end.

A principal repayment on one term note is required on June 1, 1975 in the amount of $7,777,778 (Canadian), and a repayment of $3,333,333 (Canadian) is required on the other term note on September 1, 1975, both as the first of nine equal semi-annual repayments.

The balance at year-end on the 5.75% notes of a subsidiary due in 1986 was $15,500,000. Semi-annual payments are required on these notes as follows: $625,000 in 1975 through 1985; and $875,000 in 1986. The total amount outstanding on the 4.7% notes due in 1989 was $41,250,000. Annual payments totalling $2,750,000 are required to be made on these notes.

At the end of 1974 the company had a contingent obligation as guarantor of 35 per cent of $63,000,000 borrowed from banks by an affiliate and used in construction of the Robe River iron ore project. The company is also the guarantor of 35 per cent of the affiliate's borrowing under a credit agreement with the Export-Import Bank of the United States for up to $5,500,000. At year-end, $5,481,365 had been borrowed.

The company's financing agreements also provide that funded indebtedness, including the guaranty of obligations of others for borrowed money, may not exceed stockholders' equity plus deferred Federal income taxes. Additional funded indebtedness of approximately $455,000,000 would have been permitted at the end of 1974. Also under these agreements, retained earnings of approximately $430,000,000 were in excess of amounts restricted for the payment of dividends and acquisition for value of the company's shares. The minimum working capital requirements of $30,000,000 were substantially exceeded at year-end.

There are no agreements with any bank, either written or implied, that the company is to maintain any demand deposit in a determined amount which would constitute support for existing borrowing arrangements, including both outstanding borrowings and the assurance of future credit availability. However, it is the company's internal financial policy to maintain demand deposit balances sufficient in the company's judgment to insure the continued availability of credit as the company may require.

Inventories and Inflation. Most of the company's product inventories are at nominal levels in relation to annual production and sales except for sulphur which historically is maintained at about one year's production. Because of the relatively low inventory levels, charges to operations for most of the company's products closely match current production costs. Texasgulf has used the "average cost" method in valuing inventories since the beginning of its operations in 1919. If the LIFO (last-in, first-out), method of inventory valuation were used for 1974, the reduction in earnings would not be significant.

Fixed assets are carried on the balance sheet at original cost and are so depreciated and amortized. The figures do not reflect the effect of inflation and the consequent higher cost of replacement in terms of today's depreciated value of the dollar.

Also the cost of replacing reserves that are being depleted can be substantially higher than prior discovery costs. This is because of both inflation and the greater difficulty in discovery of more remote reserves compared to those more easily found years ago.

Management's Analysis of Operations. Sales for 1974 of $568,526,000 were up 56 per cent over 1973 sales of $363,776,000, reflecting increased prices for substantially all of the company's products and increases in the quantities of sulphur, potash and phosphoric acid sold. Higher prices accounted for over 90 per cent of the increase. The sales gain of 34 per cent in 1973 over 1972 was also attributable to increases in both prices and volume, with improved prices accounting for over 70 per cent of the gain.

The 1974 increase of 190 per cent in royalties, interest and other income was mostly attributable to high earnings on increased funds available for short-term investments. Also included are $3,700,000 in 1974 compared to $1,243,000 in 1973 relating to equity in the net income of affiliated companies. Texasgulf's 10.7 per cent ownership in Beker Industries was not large enough for equity accounting treatment, and only the $250,000 received in dividends was taken into income for 1974. However, Beker Industries had total earnings of about $45.3 million, of which Texasgulf's share was approximately $4.8 million. The increase in 1973 over 1972 of other income was due to improved earnings in affiliates and to the sale of a minor portion of the investment in Beker Industries.

Operating, delivery and other related costs and expenses increased in both 1974 and 1973 in large part because of increased number of units sold. Unit costs per ton for sulphur increased approximately 30 per cent in 1974 and 10 per cent in 1973 primarily because of increases in natural gas fuel costs. Taxes imposed on potash producers by the Saskatchewan government caused significant increases in the costs of the company's Canadian produced potash. Exploration costs increased $1,574,000 in 1974 and $13,492,000 in 1973, mainly due to charges for unsuccessful exploration programs and the higher level of expenditures. The increase in interest expense in 1974 reflects higher interest rates charged on Canadian dollar term notes.

Increases in income taxes in 1973 and 1974 are the result of corresponding increases in earnings before income taxes. Changes in the rates at which income taxes were provided were attributable principally to the amount of depletion earned and the variation in rates at which income was subject to tax in Canada and the United States.

In 1974 income tax legislation was introduced both in the province of Ontario and by the Canadian federal government which substantially increased the company's income tax burden. Income tax expense for 1974 reflects the increased taxes, but only for the portion of the year on which they were levied. Canadian federal proposals would be effective commencing May 6, 1974 when enacted. The Ontario changes, which have been legislated, were effective commencing April 10, 1974.

Consolidated Balance Sheets

ASSETS

	December 31 1974	December 31 1973
Current Assets		
Cash	$ 13,594,000	$ 14,011,000
Short-term investments, at cost which approximates market	125,172,000	15,000,000
Accounts receivable, less allowance of $950,000 in 1974 and $830,000 in 1973	90,315,000	73,926,000
Inventories of minerals and products	74,098,000	63,562,000
Materials and supplies	24,225,000	15,581,000
Total Current Assets	327,404,000	182,080,000
Investments, Advances and Other Assets		
Securities of and advances to affiliates	33,359,000	34,307,000
Advance payments relating to the Utah potash property less amortization of $2,915,000 in 1974 and $2,498,000 in 1973	9,246,000	10,007,000
Recoverable Federal income taxes	12,100,000	12,100,000
Notes receivable, advances and other assets	11,724,000	6,927,000
	66,429,000	63,341,000
Property, Plant and Equipment, at cost		
Lands, contract rights and development	212,889,000	191,739,000
Plants, buildings, machinery and equipment	523,951,000	459,073,000
	736,840,000	650,812,000
Less accumulated depreciation and amortization	211,601,000	187,810,000
	525,239,000	463,002,000
Unproven properties and exploration projects, less reserve for exploration costs of $17,036,000 in 1974 and $24,384,000 in 1973	57,865,000	67,544,000
	583,104,000	530,546,000
	$976,937,000	$775,967,000

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1974	December 31 1973
Current Liabilities		
Current portion of notes payable	$ 23,091,000	$ 3,750,000
Accounts payable and accrued liabilities	37,428,000	30,263,000
Income taxes payable	74,300,000	26,701,000
Other taxes payable	3,100,000	1,590,000
Deferred income taxes applicable to current assets	4,450,000	5,600,000
Total Current Liabilities	142,369,000	67,904,000
Notes Payable, less current portion		
Canadian dollar term notes, due 1979	80,515,000	99,240,000
5.75% notes, due 1986 (of a subsidiary)	14,250,000	15,500,000
4.70% notes, due 1989	38,500,000	41,250,000
	133,265,000	155,990,000
Deferred credit—proceeds from advance gas sales	9,049,000	10,862,000
Deferred Income Taxes	132,141,000	100,845,000
Stockholders' Equity		
Preferred stock, $1 par value—Authorized but unissued 5,000,000 shares	—	—
Common stock, without par value—Authorized 45,000,000 shares; issued as follows:		
(1974 / 1973) Outstanding 30,548,572 / 30,447,377		
In treasury 4,011,428 / 4,112,623		
Issued 34,560,000 / 34,560,000	26,175,000	26,175,000
Contributed capital	2,994,000	1,425,000
Retained earnings	555,459,000	437,900,000
	584,628,000	465,500,000
Less cost of treasury stock	24,515,000	25,134,000
Stockholders' Equity	560,113,000	440,366,000
	$976,937,000	$775,967,000

Texasgulf Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

	Year ended December 31 1974	Year ended December 31 1973
Sales	$568,526,000	$363,776,000
Royalties, Interest and Other Income	15,280,000	5,258,000
	583,806,000	369,034,000
Costs and Expenses		
Operating, delivery and other related costs and expenses	260,278,000	201,026,000
Exploration	21,295,000	19,721,000
Selling, general and administrative	18,467,000	15,062,000
Interest	14,424,000	12,553,000
Income taxes	121,900,000	46,750,000
	436,364,000	295,112,000
Net Income	$147,442,000	$ 73,922,000
Net Income per share	$4.84	$2.43
Average Number of Shares Outstanding	30,483,276	30,417,336

Consolidated Statements of Retained Earnings

	1974	1973
Retained Earnings at January 1	$437,900,000	$383,446,000
Net Income	147,442,000	73,922,000
Cash Dividends (per share 1974 $.98, 1973 $.64)	29,883,000	19,468,000
Retained Earnings at December 31	$555,459,000	$437,900,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Year ended December 31 1974	Year ended December 31 1973
Funds were provided from		
Net Income	$147,442,000	$ 73,922,000
Non-cash charges (credits) to income		
Depreciation and amortization and write-off of exploration costs of prior years	40,970,000	35,238,000
Deferred taxes	31,296,000	20,584,000
Equity in net income of affiliates	(3,700,000)	(1,243,000)
Other items—net	576,000	819,000
Working capital provided from operations	216,584,000	129,320,000
Dispositions of property, plant and equipment	9,398,000	6,974,000
Decrease in securities of and advances to affiliates	4,648,000	2,319,000
Transfers of common stock	1,016,000	658,000
Increase in accounts payable and accrued liabilities	7,165,000	3,881,000
Increase in taxes payable and deferred income taxes applicable to current assets	47,959,000	23,693,000
Total funds provided	286,770,000	166,845,000
Funds were required for		
Additions to property, plant and equipment	103,128,000	82,896,000
Increase in notes, advances and other assets	5,051,000	243,000
Decrease in short-term debt	—	2,000,000
Decrease in notes payable	3,384,000	36,150,000
Dividends	29,883,000	19,468,000
Increase (decrease) in inventories	19,180,000	(4,371,000)
Increase in accounts receivable	16,389,000	17,476,000
Total funds required	177,015,000	153,862,000
Resulting in an increase in cash and short-term investments	109,755,000	12,983,000
Cash and short-term investments		
Beginning of year	29,011,000	16,028,000
End of year	$138,766,000	$ 29,011,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

A. Principles of Consolidation. The consolidated financial statements include the accounts of the company and all of its subsidiaries. All significant intercompany balances and transactions of the consolidated companies are eliminated. The investments in two affiliates less than 50% owned are carried on the equity basis. A third investment was accounted for on the equity basis through September 30, 1973, when the company's ownership interest was reduced to 11% through sale of a portion of its investment to the public.

For information pertaining to the geographic distribution of the company's net assets reference is made to the first paragraph in the Financial Review section of this report.

B. Translation of Foreign Currencies. Current assets and current liabilities are translated at the rate of exchange in effect at the close of the period. Long-term assets are translated at the rates in effect at the dates these assets were acquired, and long-term liabilities are translated at the rates in effect at the dates these obligations were incurred. Exchange adjustments (immaterial in both years) are charged or credited to income.

Revenue and expense accounts for each month are translated at the exchange rate existing on the last business day of the prior month, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired.

C. Inventories. Inventories of minerals above ground and products are stated at the lower of average cost or market. Materials and supplies are stated at average cost.

D. Depreciation and Amortization. The company's policy is to depreciate and amortize producing property, plant, and equipment over the estimated lives of such assets by the application of the unit-of-production method in the case of mine properties and facilities and the straight-line method in the case of manufacturing facilities. In arriving at rates under the unit-of-production method, commercially recoverable product reserves are estimated by the company's geologists and engineers. Such estimates are revised as data becomes available to warrant revision. Under the straight-line method, the annual rates applied to the cost of the assets give effect to wear and tear, deterioration from natural causes, and normal obsolescence. (See also note 2.)

E. Exploration. All expenditures on major exploration projects are capitalized pending determination of commercially exploitable reserves. The company accumulates costs initially in connection with broad areas of interest prior to property acquisition; thereafter, costs are allocated in the case of oil and gas exploration including all exploratory wells to leases acquired or concessions granted and in the case of mineral exploration to properties acquired and ultimately to specific anomalies. Costs of dry holes on producing oil and gas properties are charged to expense as incurred. Intangible oil and gas drilling costs on successful wells are capitalized, and the tax effects resulting from the deduction of such intangible drilling costs for current income tax purposes are deferred. Major projects determined to be commercially unsuccessful are charged to expense and reserves are provided for all expenditures on minor projects. General administrative expense relating to overall exploration efforts is charged to operations as incurred.

F. Income Tax. The company has deferred to future periods the income tax effect resulting from timing differences between financial statement pretax income and taxable income. The deferred tax on these differences pertains principally to depreciable plant and equipment, development costs incurred on several properties, advance net profits payments related to the Utah potash property, taxes and royalties included in inventories and exploration costs.

Investment tax credits utilized are deferred and amortized over the estimated lives of the related assets. (See also note 3.)

G. Pension Plan. The company has a pension plan covering substantially all employees, including employees in foreign countries. The policy is to fund pension cost accrued. (See also note 6.)

H. Research and Development. Research and development costs are expensed as incurred. These costs are primarily related to improved mineral recovery methods, product betterment and environmental control.

2. Depreciation and amortization of producing property, plant and equipment was $25,898,000 in 1974 compared with $22,034,000 in 1973.

3. Income tax expense comprises:

	U.S. Federal	Foreign	Total
1974			
Current taxes	$10,300,000	$76,400,000	$ 86,700,000
Deferred taxes	12,200,000	23,000,000	35,200,000
	$22,500,000	$99,400,000	$121,900,000
1973			
Current taxes	$ —	$26,900,000	$ 26,900,000
Deferred taxes	(6,550,000)	26,400,000	19,850,000
	($ 6,550,000)	$53,300,000	$ 46,750,000

Because of permanent differences, principally depletion,

and the available foreign tax credit the company had no liability for U.S. Federal income taxes in 1973. The company had a sizeable liability for 1974 attributable primarily to improved results from U.S. operations.

Deferred tax expense results from timing differences in the recognition of transactions for tax returns and financial statement purposes. The nature and the tax effect of these differences in 1974 and 1973 were as follows:

	1974	1973
Excess of tax over book depreciation:		
U.S.	$ 1,100,000	$ 250,000
Foreign	18,950,000	23,900,000
Deferred mine development costs:		
U.S.	2,900,000	100,000
Foreign	2,450,000	3,300,000
Exploration costs in excess of tax deductions	(300,000)	(7,300,000)
Investment credit benefit deferred (net of amortization, $750,000 in 1974)	6,050,000	—
Other	4,050,000	(400,000)
	$35,200,000	$19,850,000

Total tax expense is less than the amount which would be provided by applying the U.S. Federal income tax rate of 48% for the following reasons:

	1974	1973
U.S. Federal income tax statutory rate	48.0%	48.0%
Canadian income subject to Canadian income taxes but not expected to be subject to U.S. tax	.8	(7.5)
Depletion	(3.5)	(3.0)
Other	—	1.2
	45.3%	38.7%

No U.S. Federal income taxes were provided on Canadian source income since the foreign tax credits arising from the Canadian taxes paid on this income are sufficient to satisfy the U.S. Federal income tax liabilities generated by this income after giving consideration to U.S. depletion deductions and U.S. Federal income tax deductions available to Western Hemisphere Trade Corporations (WHTC). Because of this and the higher Canadian income tax rates the company expects to generate excess foreign tax credits which may not be utilized.

Income taxes provided for 1974 include the effect of changes proposed during the year in the Ontario Provincial taxes and the Canadian Federal income tax. Changes in the Ontario tax laws, effective April 10, 1974, have been enacted. Changes in the Canadian Federal income tax, initially proposed May 6, 1974 and included in the budget proposals of November 18, 1974, have not yet received legislative approval.

At December 31, 1974 the company had investment tax credit carryforwards of approximately $2,250,000 available as credits against future U.S. Federal income taxes.

The Internal Revenue Service has examined the company's tax returns for the years 1958 through 1965. A revenue agent's report previously received for the period 1966 through 1968 is now in the process of being amended by the Service. Concurrently, the returns filed for the years 1969 through 1971 are being examined. The Service has challenged or is proposing adjustments to the company's treatment of several items in the tax returns filed for the years 1958 through 1971. Should the Service prevail income reported to shareholders for the years 1974 and 1973 would be reduced by approximately $9,050,000 and $4,600,000 respectively and prior years' income would be reduced approximately $16,600,000 after applicable reductions of deferred income taxes provided in prior years; deferred income tax credits of $3,400,000 would be provided which would be amortized to income in future years; payments of U.S. Federal income taxes and interest in the amount of $42,650,000 would be required and the amount of recoverable U.S. Federal income tax would be reduced by $2,550,000. Numerous issues have been raised, the most significant of which pertains to the company's treatment of a tax paid to Ontario on income from the Kidd Creek mine. The company has claimed this tax as a credit against U.S. Federal income taxes. The Service asserts this tax should be a deduction in arriving at U.S. taxable income. The company intends to contest all major issues and expects to prevail.

4. For certain information regarding long term debt, a guaranty and compensating balances, reference is made to "Financing" in the Financial Review section of this report.

5. Under a stock option plan approved by the stockholders in April, 1961, options were granted to officers and employees of the company and subsidiaries to purchase shares of the company's stock. Options become exercisable, as to 40 percent of the total granted eighteen months after date of grant; as to 70 percent three years after date of grant, and as to 100 percent four years after date of grant and expire five years after date of grant.

	1974		1973	
During the Year Options:	Shares	Option Price Per Share	Shares	Option Price Per Share
Became exercisable as to	49,200	$15 15/16-20	43,200	$15 15/16-16 13/16
Were cancelled or expired as to	—	—	69,600	15 15/16-43 15/16
Were exercised as to	47,400	15 15/16-20	30,075	15 15/16-20

At December 31, 1974, there were 86,325 shares under option, 79,725 of which were exercisable at prices ranging from $15 15/16 per share to $20 per share. The plan terminated as to the grant of additional options in 1971.

Under a stock option plan approved by the stockholders in April, 1972, options may be granted to officers and key employees of the company and subsidiaries to purchase up to 750,000 shares. In addition to granting "qualified stock options," which expire five years after date of grant, the company may also grant "non-qualified stock options"

whose term shall not exceed ten years. During 1973 there were 194,550 "qualified stock options" granted at $22¾ per share, of which 5,000 were cancelled in 1974 and 2,000 in 1973. None of these shares became exercisable during 1974 or 1973. They become exercisable as to 40 percent of the total granted eighteen months after date of grant, as to 70% three years after date of grant, and as to 100% four years after date of grant.

During 1974, there were an additional 126,850 "qualified stock options" granted at $27 9/16, of which 2,400 were cancelled during the year. They become exercisable as to 40% of the total granted one year from date of grant, as to 70% two years after date of grant, and as to 100% three years after date of grant.

Under the options granted during 1974 optionees who are not officers or directors may elect at any time during the exercisable period to receive from the company the excess of the then fair market value of the shares exercisable over the option price. The Board of Directors has retained the power to cancel or suspend this right of election. The company may satisfy any liability arising from such election in either cash or capital stock of the company or a combination of both.

In April 1970, stockholders approved a Career Incentive Stock Plan. Under the Plan awards not to exceed 250,000 shares may be made out of treasury stock to officers and other key employees of the company and its subsidiaries. In 1974, awards of 68,800 shares were made, awards of 2,515 shares previously granted were cancelled, and 12,385 shares were transferred to the employees under the plan. In 1973, awards of 30,550 shares were made, awards of 560 shares previously granted were cancelled and 9,730 shares were transferred to the employees under the plan. Awards outstanding at December 31, 1974 and December 31, 1973 amounted to 131,745 shares and 77,845 shares respectively. An amount equal to the fair market value of the shares at the time of award is being charged to income over the period in which the awards will be earned. Accordingly $673,000 was charged to income during 1974 ($343,000 in 1973). Shares are transferred 20% upon the second anniversary of the award and each anniversary thereafter.

The shares reserved for issuance under the above plans amounted to 1,057,145 at December 31, 1974 and 1,116,930 at December 31, 1973.

In 1974 contributed capital increased by $1,569,000 ($415,000 in 1973) and treasury stock decreased by $619,000 ($243,000 in 1973) due to the transfer of common stock under the stock option, career incentive, and the employee shareownership plans.

The Employee Shareownership Plan adopted in 1974 provides for initial and subsequent distributions of the company's common shares based on years of service with the company. It is expected that approximately 43,000 shares will be distributed to employees under the plan over the next five years. The basis for distribution is more fully described in the first three paragraphs of this report under Employee Shareownership Plan on page 23.

6. Pension expense for 1974 and 1973 was $5,321,000 and $4,514,000 respectively. The market value of Plan assets exceeded the actuarially computed value of vested benefits at December 31, 1973. At December 31, 1974 the actuarially computed value of vested benefits exceeded the market value of Plan assets by approximately $1,200,000 or 2 per cent of the vested benefits. It is expected there will be no significant increase in pension costs as a result of the Pension Reform Act.

7. Rent expense amounted to $8,569,000 in 1974 and $7,911,000 in 1973 after receipts for subleases of $427,000 and $344,000 respectively. Of these amounts $4,317,000 in 1974 and $4,168,000 in 1973 pertained to vessels used in the transportation of liquid sulphur and were determined on the basis of vessel usage.

The minimal rental commitments under all noncancellable leases as of December 31, 1974 were as follows:

(amounts in thousands)

	1975	1976	1977	1978	1979
Liquid sulphur tankers	$2,681	$ 979	—	—	—
Rail cars and equipment	1,480	1,202	$ 894	$ 759	$ 559
Office space	898	1,022	1,028	1,027	1,027
Other	174	49	14	2	2
	$5,233	$3,252	$1,936	$1,788	$1,588

	1980 through 1984	1985 through 1989
Liquid sulphur tankers	—	—
Rail cars and equipment	$1,576	$492
Office space	4,546	306
Other	5	5
	$6,127	$803

The above amounts are net of rentals to be received on subleases on office space of $288,000 in 1975, $257,000 in 1976, $247,000 annually for the years 1977 through 1979, $1,217,000 for 1980 through 1984 and $385,000 for 1985 through 1989. The minimum rental commitments for noncapitalized financing leases consist of the amounts reported for Liquid sulphur tankers and Rail cars and equipment reported above. There are no commitments for rentals beyond the 1985 through 1989 period.

The effect on net income if all non-capitalized financing leases were capitalized, related assets were amortized on a straight line basis and interest cost was accrued on the basis of the outstanding lease liability would not be material.

8. Sales are stated net of outside zinc and lead smelting and refining charges to better present revenues from current operations. Such charges, $98,424,000 in 1974 and $85,599,000 in 1973 were reported as deductions from gross sales in prior years.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

To the Stockholders of Texasgulf Inc.

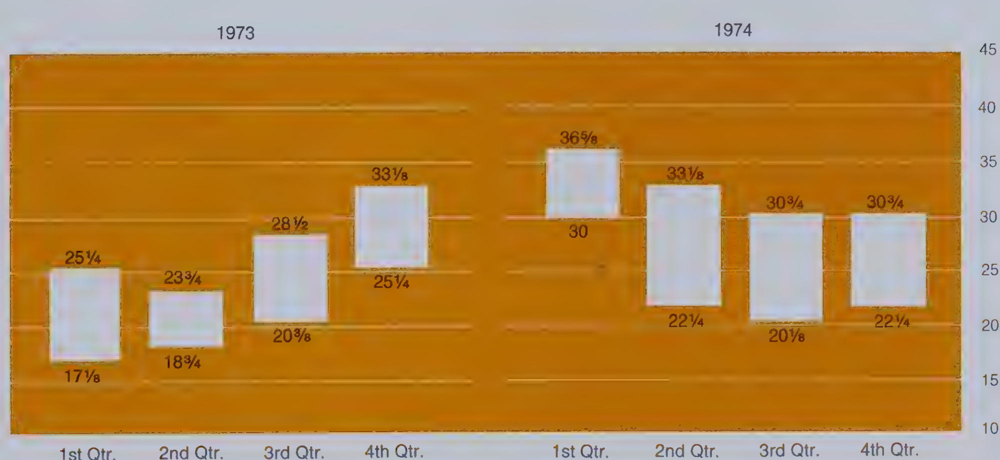
We have examined the consolidated balance sheets of Texasgulf Inc. and consolidated subsidiaries as of December 31, 1974 and December 31, 1973 and the related consolidated statements of income, retained earnings and changes in financial position for the two years ended December 31, 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Texasgulf Inc. and consolidated subsidiaries at December 31, 1974 and December 31, 1973 and the results of their operations and changes in their financial position for the two years ended December 31, 1974, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 27, 1975

High-Low Market Prices Texasgulf Common Stock



Dividends Paid per share	$.15	.15	.15	.19	$.19	.19	.30	.30

Prices shown above are from the New York Stock Exchange, where Texasgulf's shares are listed under the symbol Tg. They are also listed on the Toronto Stock Exchange under the symbol TXG.

Texasgulf Inc. and Consolidated Subsidiaries

Ten Year Financial Summary

	1974	1973	1972
Income (in thousands of dollars)			
Sales	$568,526	$363,776	$270,542
Royalties, interest and other income	15,280	5,258	2,876
Operating, delivery and other related costs and expenses, including exploration	281,573	220,747	195,151
Selling, general and administrative expenses	18,467	15,062	13,323
Interest expense	14,424	12,553	12,032
Income taxes	121,900	46,750	22,350
Income before extraordinary charge	147,442	73,922	30,562
Extraordinary charge net of applicable income taxes	—	—	—
Net income	147,442	73,922	30,562
Financial Position (in thousands of dollars)			
Current assets	327,404	182,080	155.992
Current liabilities	142,369	67,904	62,330
Working capital	185,035	114,176	93,662
Mineral and product inventories	74,098	63,562	70,486
Property, plant and equipment—net	583,104	530,546	492,199
Total Assets	976,937	775,967	711,430
Notes payable, less current portion	133,265	155,990	172,140
Stockholders' equity	560,113	440,366	385,254
Other Data*			
Per Share of Common Stock—			
Income before extraordinary charge	4.84	2.43	1.01
Extraordinary charge, net of tax	—	—	—
Net income	4.84	2.43	1.01
Dividends	.98	.64	.60
Market price range per share	36⅝-20⅛	33⅛-17⅛	20¾-14¾
Number of stockholders	66,881	64,841	80,247
Average number of shares outstanding	30,483,276	30,417,336	30,395,912

*Adjusted for three for one stock split at May 6, 1968.

1971	1970	1969	1968	1967	1966	1965
$217,699	$219,459	$239,303	$265,958	$222,743	$130,337	$ 98,981
3,250	10,868	10,760	7,953	3,778	3,338	3,301
159,645	143,060	147,574	155,932	125,864	84,415	68,763
12,981	11,649	11,801	10,391	10,120	9,765	7,362
8,847	7,545	6,872	6,603	6,835	4,732	2,597
14,250	22,250	22,350	29,500	20,700	6,900	4,350
25,226	45,823	61,467	71,485	63,002	27,863	19,210
(4,675)	—	—	—	—	—	—
20,551	45,823	61,467	71,485	63,002	27,863	19,210
144,660	182,306	226,306	199,625	92,834	57,390	64,636
57,610	94,636	53,375	48,891	25,657	26,396	14,714
87,050	87,670	172,931	150,734	67,177	30,994	49,922
67,792	57,907	49,240	37,611	28,999	18,628	19,738
462,367	419,429	310,215	300,179	295,245	278,410	148,862
670,016	647,146	576,326	529,027	418,072	364,740	243,019
168,519	119,900	117,346	125,500	115,000	135,000	55,000
372,691	370,372	342,781	297,876	235,565	175,556	151,363
.83	1.51	2.02	2.36	2.08	.92	.64
(.15)	—	—	—	—	—	—
.68	1.51	2.02	2.36	2.08	.92	.64
.60	.60	.55	.33⅓	.13⅓	.13⅓	.13⅓
24⅜-11¼	23¼-13	39⅞-19⅛	49⅞-29	53.33-32¼	43⅞-22¾	31.46-16.33
82,511	79,728	72,149	62,001	48,529	49,553	47,911
30,386,007	30,386,007	30,384,352	30,323,681	30,223,094	30,126,680	30,055,922

Officers and Staff

Charles F. Fogarty
Chairman of the Board
and Chief Executive Officer

Richard D. Mollison
President

H. V. W. Donohoo
Executive Vice President

James W. Estep
Senior Vice President
Western Operations
Denver, Colorado

Walter Holyk
Senior Vice President
Metals Division
Toronto, Ontario

P. Ray Clarke
Vice President
and General Manager
Kidd Creek Operations
Timmins, Ontario

David M. Crawford
Secretary

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Vice President
and General Manager
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Newgulf, Texas

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Phosphate Operations
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Earl L. Huntington
Vice President
and General Counsel

Kenneth J. Kutz
Vice President
International Division

Gordon N. McKee, Jr.
Vice President
and Treasurer

Walter F. Meyer
Vice President
and Controller

Leo J. Miller
Vice President
Minerals Exploration
Division
Denver, Colorado

Frank R. Moulton, Jr.
Vice President
and General Manager
Oil and Gas Division
Houston, Texas

James R. West
Vice President
Research and Engineering

Administrative	Arthur A. Berger	Office Manager
	Joseph M. Gregory	Aviation Manager
	John S. Taylor	Assistant to the President
Data Processing	**Raleigh, North Carolina**	
	John G. Stengel	Manager
	William F. Hodge, II	Computer Operations Supervisor
	Francis J. Moore	Corporate Systems and Programming Supervisor
	David L. Rutledge	Divisional Systems and Programming Supervisor
Employee Relations	F. Wayne White	Manager
	Thomas G. Downing	Assistant Manager
	William O. Britt	Compensation Manager
Finance	John J. Burke	Assistant Credit Manager
	James A. Campbell	Assistant Controller—Taxes
	James J. Finn	Assistant Controller—General Accounting
	Charles J. Gillem, Jr.	Insurance Manager
	Robert P. Hedley	Assistant Treasurer
	John E. Johnson	Assistant Treasurer
	William F. Seamon	Credit Manager
	John T. Thornton	Assistant Controller—Accounting Policy
Internal Audits and Budgets	John T. Duffy	Manager
	James P. Finnigan	Budget Supervisor
	Michael Kudlick	Audit Supervisor
Legal	Joseph C. Brown	Assistant General Counsel and Assistant Secretary, Houston
	David L. James	Assistant General Counsel and Assistant Secretary
	Charles W. Wilder	Assistant General Counsel and Assistant Secretary
	Meredith P. Crawford, Jr.	Senior Counsel
	George W. Hugo	Senior Counsel, Houston
	Ted G. White	Senior Counsel, Houston

Unless otherwise indicated location is New York

Marketing

Advertising	Charles S. Bryk	Manager
	William J. Cotter	Assistant Manager
Marketing Research	Paul A. Rittenhouse	Manager
	James A. Orser	Assistant Manager
Transportation and Distribution	R. C. Ballard Trigg	General Manager
	Wilson R. Atwood	Rail Equipment Manager

Public Relations

William D. Askin	Assistant Manager, Public Relations, and Editor, Triangle Magazine

Research and Engineering

Harry G. Bocckino	Research Laboratory Manager, Golden, Colorado
Robert J. Boyle	Assistant Manager
Arthur Gloster	Assistant Manager
Jack H. McLellan	Assistant Manager
Alan G. Perry	Assistant Manager, Toronto

Operations

Chemicals Division

Frasch Sulphur

Houston, Texas

Frank J. Claydon, Jr.	Sulphur Sales Manager and Manager—Houston Office
H. Newton Cunningham, Jr.	Assistant Sales Manager, Sulphur
V. Benner Dowe	Government Relations Manager
Walter B. Gillette	Assistant Sales Manager, Sulphur, New York
Earl W. Hanna	Assistant to the Manager—Houston Office
William F. Mason	Assistant Sales Manager, Sulphur
Robert L. Vordick	Distribution Manager

Newgulf, Texas

Byron N. Soderman	Assistant General Manager
Douglas C. Anders	Accounting Manager
Kenneth D. Bishop	Maintenance Manager
R. Lindsay Carter, Jr.	Purchasing & Warehousing Manager
Murray O. Clapp	Traffic Manager
Ernest M. Dunn	Mine Manager, Moss Bluff, Texas
Wayne Herrington	Engineering Manager
Edmond Herschap, Jr.	Employee Relations Manager
Leonard M. Mason	Quality Control Manager
Alec C. Mayfield	Power Plant Manager
Robert L. McDaniel	Terminal Manager, Beaumont, Texas
Royce L. Northcutt	Field Manager
Lloyd L. O'Neal, Jr.	Mine Manager, Bully Camp, Louisiana
George O. Richardson	Mine Manager, Comanche Creek, Texas
Noe Sonnier	Operations Manager, Beaumont
Raymond J. Staffa	Administrative Assistant to the General Manager
Clinton P. White	Public Relations Manager

Phosphate

Raleigh, North Carolina

John H. Wiley	Marketing Manager, Fertilizer Materials
Scott F. Stidham	Administrative Manager
Robert B. Gibbs	Domestic Sales Manager, Fertilizer Materials
Anderson O. Harwell	Technical Salesman, Fertilizer Materials
Thomas M. McNally, Jr.	Accounting Supervisor
Jack L. Milani, Jr.	Market Planning Manager
Thomas L. Perkins	International Sales Manager, Fertilizer Materials
Roy F. Underwood	Sales Systems Manager
Maurice S. Weber	Transportation Manager

Aurora, North Carolina

	James R. Paden	General Manager
	James M. Williams	General Superintendent
	Cameron W. Albin	Acid Plants Superintendent
	June W. Crawford	Engineering Superintendent
	Clyde W. Davis, Jr.	Maintenance Superintendent
	Robert J. Forest	Purchasing Agent
	Harvey A. Franz, Jr.	Chief Accountant
	John D. Heard	Administrative Superintendent
	John M. Hird	Mine Superintendent
	Delbert R. Jones, Jr.	Distribution Supervisor
	John R. Pyburn	Employee Relations Superintendent
	James N. Richardson	Mill Superintendent
	Frank H. Robinson	Fertilizer Plants Superintendent
	Brooks M. Whitehurst	Technical Services Superintendent
Western Operations	**Denver, Colorado**	
	James A. L. White	Assistant to the Senior Vice President
	Gary C. Pickard	Accounting Supervisor
Potash	**Moab, Utah**	
	Rudolph S. Higgins	Manager
	Paul Arthur	Chief Accountant
	Albert K. Gentry	General Superintendent
	Robert E. MacAdams	Employee Relations Supervisor
	Frank J. Peternell	Safety Supervisor
Recovered Sulphur	**Calgary, Alberta**	
	Frederic J. Ronicker	Manager
	Edward W. Plum	Assistant Manager
	Donald H. Davies	Plant Superintendent, Okotoks, Alberta
	Dennis B. Kanten	Traffic Coordinator
	Robert R. MacGregor	Chief Accountant
	T. Stafford Mosher	Employee Relations and Office Manager
	James J. Rennie	Traffic Superintendent, Whitecourt, Alberta
	Douglas H. Whittaker	Vat Superintendent, Whitecourt
Soda Ash	**Granger, Wyoming**	
	Robert E. Clagett	Project Manager, Denver
	Paul V. Bethurum	Manager
	Richard G. Bryan	Market Planning Manager, Denver
	Edward H. Conroy	Technical Services Manager
	Alfred E. Hasenbalg	Purchasing Agent
	Kenneth B. Hutchinson	Mine Superintendent
	James A. King	Mill Superintendent
	John Manyak	Chief Accountant
	Richard C. Reynolds, Jr.	Employee Relations Superintendent
Caustic Soda-Chlorine Project	**Newgulf, Texas**	
	Kenneth D. Bishop	Project Manager
Metals Division	**Toronto, Ontario**	
	Kent D. Hoffman	Sales Manager, Metals
	Bruce W. Gilbert	Assistant Sales Manager, Metals
	Leroy T. Kling, Jr.	Accounting Supervisor
	H. Devon Smith	Public Relations Manager
	St. Louis, Missouri	
	Howard L. Young	Zinc Metal Sales

	Texasgulf Canada Ltd.	
	Timmins, Ontario	
	Barton A. Thomson	Assistant General Manager
	Michael P. Amsden	Metallurgy Manager
	Clarence V. Amyotte	Mine Superintendent, Underground No. 2 Mine
	David G. Baskin	Traffic Superintendent
	J. Eric Belford	Mine Superintendent, Underground No. 1 Mine
	Colin Chapman	Mill Superintendent
	George C. Coupland	Mine Superintendent, Surface
	George M. Freeman	Zinc Plant Superintendent
	Donald F. Grenville	Employee Relations Superintendent
	G. Merle T. Marshall	Engineering Superintendent
	Angelo Matulich	Chief Geologist
	Leonard D. Sanderson	Maintenance Superintendent
	Albert W. Scragg	Chief Accountant
	Donald G. Treilhard	Copper Smelter Superintendent
Oil and Gas Division	**Houston, Texas**	
	Weyman W. Crawford	Assistant General Manager
	Robin L. Lyon	Regional Manager
	Maurice Mazurkewich	Regional Manager, Calgary
	Charles H. Moritz	Chief Accountant
International Division	Kurt O. Linn	Special Projects Manager
Minerals Exploration Division	**Denver, Colorado**	
	J. Russell Loudon	Regional Manager, Johannesburg, South Africa
	George W. Mannard	Regional Manager, Toronto
	Morland E. Smith	Regional Manager, Perth, Australia
	James H. Ogg	Administration Manager
	George Podolsky	Chief Geophysicist
Farm Division	**Johnsonburg, Pennsylvania**	
	Arthur L. Bennett	Manager
Subsidiaries		
Pakistani Texasgulf Inc.	James B. West	Vice President, Karachi, Pakistan
Texasgulf Australia Ltd.	Kenneth J. Kutz	President
Texasgulf Marandoo Ltd.	J. G. Pinkerton	Resident Manager, Perth, Australia
Texasgulf Rhodes Ridge Ltd.		
Texasgulf Canada Ltd.	Richard D. Mollison	President
	Walter Holyk	Executive Vice President, Toronto
Texasgulf Export Corporation	Michael C. Hughes	Vice President, London, England
Texasgulf Panama Inc.	Leo J. Miller	President, Denver
	Enrique J. Ruiz-Williams	Vice President, Panama City, Panama
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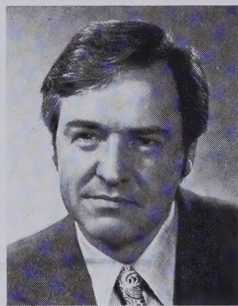
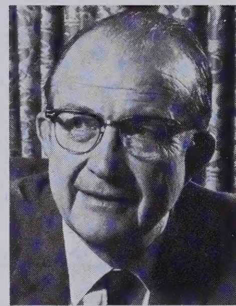
Allan Potash Mines	James A. L. White	Tg Representative, Denver
Cia. Exploradora del Istmo, S.A. (C.E.D.I.)	Robert M. Stoy	Tg Chief Technical Adviser to C.E.D.I., Texistepec, Mexico
Sulphur Export Corporation	John W. Hall, Jr.	President
	S. Keith Hardwick	Vice President

Harold Decker



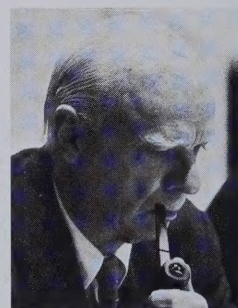
Louis R. Desmarais



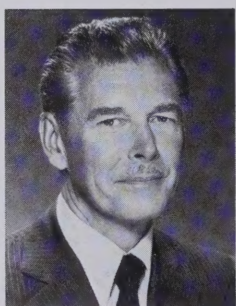
Dr. Charles F. Fogarty

H. Anthony Hampson

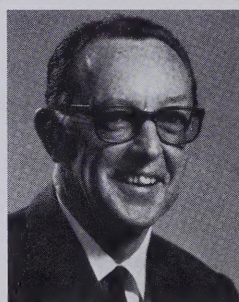
Dr. Guy T. McBride, Jr.



John M. Meyer, Jr.



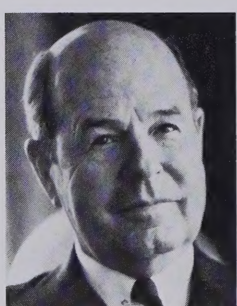
John P. Gallagher



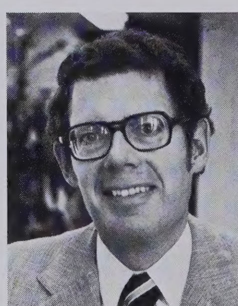
Richard D. Mollison

Allan Shivers

Donald B. Smiley



Claude O. Stephens



Richard M. Thomson

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Director of Reed Tool Company
Director of Earth Resources Company
Houston, Texas

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New York, New York

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Chief Executive Officer
Dome Petroleum Limited
Calgary, Alberta

H. Anthony Hampson
President and Chief Executive Officer
Canada Development Corporation
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